Skill Investments for All Canadians: The Future of Labour Market Development Agreements

Provincial-Territorial Labour Market Ministers
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Skill Investments for All Canadians

The Future of Labour Market Development Agreements

Executive Summary

- All Canadians need access to opportunities for skill development.
- Those who are most in need of training and employment programs and services often have the least access to them.
- Labour Market Development Agreements (LMDAs) effectively provide skill development opportunities to eligible unemployed people.
- LMDA employment programs and services should be expanded, because an investment in skills development gives high social and economic returns.
- Provinces and territories share a common vision, a vision in which provinces and territories have the tools to meet the labour market development needs of all Canadians. Specifically they support:
    - An approximate $700 million increase in Employment Insurance (EI) Part II funding allocations, the maximum allowed under the *EI Act;*
    - Funding from the Consolidated Revenue Fund, to provide skill development opportunities to Canadians who are not EI-eligible;
    - Broader client eligibility for skill development programs and services under the LMDAs;
    - Lower EI premiums to increase employment; and
    - A return to the negotiating table in jurisdictions seeking an initial or a different Labour Market Development Agreement.
- Provinces and territories have clear expectations that Human Resources Development Canada (HRDC) will respond to the above key challenges in the upcoming federal skills agenda.

Skill Investments for All Canadians: The Future of Labour Market Development Agreements

Canadians Need Ongoing Access to Training and Skills Upgrading

"What do you want to be when you grow up?" For most Canadians, this is no longer a simple question. Workers frequently reevaluate their career and life goals. Certain traditional jobs and industries are disappearing while new ones are rapidly evolving. Rapid progress in technology is creating a competitive global marketplace, and increasing the education and skill levels workers need to maintain employment. An estimated 25 percent of Canada's overall growth in per capita GDP from 1960 to 1995 was accounted for by the growth in the knowledge and skills of workers.[1] And, the importance of knowledge and skills is increasing.

The Canadian labour market is in transition - the challenge is to stay current. Until recently, secondary and post-secondary education was sufficient to guarantee a lifetime of employment. This is no longer the case. Today's workforce needs to engage in continual training and skills upgrading. An innovative system of skills upgrading is necessary to ensure that even with changing industrial and occupational requirements, Canadians will be able to answer the question, "Now that the labour market has changed, what do you want to do?"

There are many Canadians who need ongoing access to skill development opportunities – the unemployed, the underemployed, disadvantaged groups, and the employed. Studies show, however, that those Canadians who would most benefit from skill development (that is, those with little education or those who are under or unemployed) are the least likely to receive it.[2] That is why it is important for government to sponsor training and re-training opportunities, in order to complement training that is sponsored by employers and individuals.

LMDAs Provide Training to Eligible Unemployed Canadians

History of Unemployment Insurance and Employment Insurance

Since 1940, the *Unemployment Insurance (UI) Act* has provided temporary income support for regular, full-time, year-round Canadian workers who were laid off. In the 1970s, UI also began to cover living costs and living allowances for UI-eligible clients who were in training. In 1996, Canada passed the *Employment Insurance (EI) Act.* Along with the new name, the federal government renewed its dedication to ensuring that claimants have access to the quality reskilling or upskilling opportunities that ease their transition back into the workplace.

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[1] D. Jorgenson and E. Yip, "Whatever Happened to Productivity Growth", 1998

[2] Statistics Canada, *Workplace and Employee Survey*, 1999; OECD, *Labour Market Policies: New Challenges*, October 1997

The Current Employment Insurance Act

The 1996 *Employment Insurance Act* has two parts:

- EI Part I provides **income support** to eligible unemployed claimants.
- EI Part II places an emphasis on getting people back to work through **training and employment programs and services.**

Part II programs and services are called Employment Benefits and Support Measures (EBSMs). Employment Benefits are long-term programs, available to unemployed persons who are currently or who have recently been eligible for EI Part I income support. Support Measures are short-term programs and services, and they are available to all Canadians. The objective of EI Part II EBSM programming is:

> *"...to assist individuals to prepare for, obtain and maintain employment resulting in savings to the Employment Insurance account. In so doing, a return on investment will be achieved through a reduction in dependency on Employment Insurance and Social Assistance and additional tax revenues through employment."*[3]

Labour Market Development Agreements

The reforms introduced through the *EI Act* included an acknowledgement that active employment measures (EBSMs) are linked to education and other areas of provincial responsibility. This opened the door to a transfer of responsibility, to provinces and territories, for the delivery of training and employment programs and services for unemployed persons. This federal initiative has had positive implications for federal-provincial relations. More importantly, the federal government's decision has paved the way for better programs and services for clients.

In 1996, the federal government entered into bilateral negotiations with provinces and territories to establish partnerships for delivery of programs and services under EI Part II. The vision was to allow EBSMs to be adjusted to meet the local needs of labour markets. The results of these negotiations are the **Labour Market Development Agreements,** Appendix A summarizes the LMDAs each jurisdiction holds. Ontario is the only province that does not have an LMDA. Across Canada, the federal government spends $2.2 billion on EI Part II programs and services. This is a significant investment in skills training.

Effectiveness of LMDAs

There is a strong link between education and employment (Appendix B). Survey results show that skill development contributes to the economy in the form of higher worker productivity and income, provides a better quality of life in terms of reduced poverty, unemployment and public assistance, and helps to ensure improved health and child rearing practices.[4] The programs and services funded through the Labour Market Development Agreements are an important investment, with high returns in terms of human capital.

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[3] Part II of the *Employment Insurance Act*

[4] International Adult Literacy Survey (IALS), "Literacy Skills for the Knowledge Society", 1997

The benefits of LMDA programs and services are being extended to other Canadians as well. Provinces and territories with devolved LMDAs (see Appendix A) combine federal EI dollars with their own funds, in order to offer integrated services to EI-eligible and other clients. This enables these jurisdictions to offer a comprehensive set of labour market adjustment programs and services to those who need it, reducing overlap and duplication.

The *Employment Insurance Monitoring and Assessment Reports*[5] (EI MARs) have shown positive outcomes for LMDAs (Appendix C). The 2000 EI MAR states:

> *"Overall, results indicate that EBSMs are effective in the short-term. Satisfaction levels with EBSMs are relatively high. Over three-quarters of participants rated services good or excellent, while only one in ten expressed dissatisfaction. Results also support the view that programs and services are, for the most part, adaptable to the needs of Canadians. In general, programs and services offered by different levels of government are flexible enough to meet local needs, and complementary in their approaches."*

The 2000 EI MAR also reports continued positive outcomes and considerable savings to the EI Account:[6]

- For 1999/2000, a total of 293,300 clients who participated in LMDA training programs and employment services returned to work.
- The return to work of EI clients before the end of their benefit period resulted in $939 M in savings to the EI Account.

The *Monitoring and Assessment Reports* are not the only proof that training and re-training programs and services are a sound investment into human capital. A number of members of the Organization for Economic Cooperation and Development (OECD) have found that investment in active labour market programs, such as workplace preparation, training placements, and on-the-job training, offer a substantial return on investment. The OECD *Economic Observer* reports that the returns of spending on on-the-job training are commonly found to be "easily over 15 percent".[7]

LMDAs are the Centrepiece of Labour Market Programming in Canada

Provinces and territories have developed a consensus regarding LMDAs and their central role in labour market programming. This consensus was communicated to HRDC Minister Jane Stewart in May 2000, and is based on the following key points:

- Access to EI Part II active employment measures is generally conditional on EI Part I income support eligibility; however, since the 1996 reforms to the *EI Act*, the number of Canadians eligible for EI has declined.

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[5] Human Resources Development Canada, 1997-2001

[6] The 2001 EI MAR has not been released, but the 2000/01 figures show the positive trends are sustained.

[7] OECD, "Productivity with a Purpose: Improving the Standard of Living of Canadians", 20th Report of the Standing Committee on Finance, June 1999

- Access to Part I income support benefits has been restricted and fewer people receive these funds, yet EI premiums have remained high.
- The surplus in the EI Account reached a cumulative amount of about $26 billion by the end of 1999, and was expected to grow to approximately $31 billion by the end of 2000.[8]
- The federal government Chief EI Actuary feels that the EI surplus is too large, that a surplus of only $10 billion to $15 billion is needed to cover a complete business cycle, and the EI premiums can be significantly and immediately reduced.[9]
- There are a number of program areas which would benefit from additional funding, including: measures to bridge the gap between the well-educated and those without basic skills and literacy, long term investments on those only marginally attached to the labour force, and employer-sponsored training.
- Canada trails most of the major OECD countries in spending on training and employment programs and services by a wide margin, and Canada's ratio of income support spending to training support spending does not compare well with other leading countries.

Provincial and territorial governments support the efforts of those jurisdictions – Nova Scotia, Ontario and British Columbia – who wish to enter into or resume LMDA negotiations with the federal government.

Increasing Future Access to LMDA Programs and Services

Increasing Eligibility for LMDA-Sponsored Training

Expanding access to LMDA-sponsored skills upgrading and retraining would have immense economic and social benefit for Canada. Currently only unemployed persons who are or have recently been eligible for EI Part I income support are able to access the longer-term training opportunities under EI Part II. If funding was increased and eligibility was expanded, many other Canadians could benefit, including:

- **Unemployed persons who are eligible for EI Part II, but who are not participating in the programs and services.** In 1999/2000, of 1.7 million EI claimants across Canada, only 481,282 of them (28%) participated in EBSMs, while there were only 212,100 longer-term training interventions .[10]
- **Unemployed persons who aren't eligible for EI Part II programs and services, but who have made a minimum contribution to EI**. One half of unemployed Canadians are not eligible for EI Part I income benefits, and hence are not eligible for the EI Part II Employment Benefits.[11]
- **Canadians who have not made a minimum contribution to EI.** Some Canadians have not contributed to EI, so they are not eligible for LMDA-funded training. Continued effort is needed to ensure that access to longer-

[8] At the end of 2001, it has grown to $39 billion.
[9] Auditor's Report to the Minister of HRDC, Public Accounts of Canada, 1998-99, p.4.18
[10] HRDC, 2000 *Employment Insurance Monitoring and Assessment Report*, 2000
[11] HRDC *Bulletin* Volume 5, No. 1, "Who Receives Employment Insurance, Who Does Not and Why?"

term training is available to all who can benefit, including but not limited to women, visible minorities, Aboriginal persons, persons with disabilities, youth, persons living in poverty, persons with low levels of education, persons whose first language is neither French nor English, and persons living in rural and remote communities. As skill shortages in certain industries increase, it will be even more important to include marginalized Canadians in training initiatives. This will ensure that Canada has an adequate labour market supply of skilled workers.

Increasing LMDA Funding through EI Part II Funds

The federal government can and should increase funding allocations for EI Part II, in order to expand access to LMDA sponsored training.[12] Section 78 of the *Employment Insurance Act* allows government spending on active employment measures out of the EI Account to a maximum of 0.8% of insurable earnings. If the federal government used this potential to the limit the *Act* allows, it could make approximately $700 million additional dollars available to provinces and territories annually. Such a change would increase labour market funding by approximately 20%.

This money is readily available as the EI account currently has a surplus of $39 billion. One way of utilizing a small portion of this surplus would be to actively encourage more Canadians who are currently eligible for EI Part II longer-term training to participate. Another way of utilizing part of this surplus would be to expand eligibility to EI Part II, for example, by making it available to anyone who has made monthly EI contributions exceeding a set dollar amount or a set number of weeks. This change alone would ensure that a substantially larger number of Canadians would get the help they need. Some groups would still remain ineligible, however, as some Canadians have only been able to make modest or no contributions to EI.

Increasing LMDA Funding through Other Federal Funding Sources

Under the current rules, the only source for LMDA funding is EI, so EI Part II Employment Benefits are only available for clients who are currently or were recently eligible for EI Part I income support. A broader source of federal funding is needed if these valuable training programs and services are to be available to all those who could benefit from them. The federal Consolidated Revenue Fund (CRF) is an appropriate general revenue source that can be used to help people regardless of their EI contributions. The Aboriginal Human Resource Development Agreements (AHRDAs) provide a precedent for supplementing EI Part II dollars with CRF funds.[13]

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[12] With respect to EI Part II funding, it should be noted that it is separate from EI Part I income support. Provinces and territories are seeking increased EI Part II funding.

[13] AHRDAs are individual agreements negotiated between the federal government and Aboriginal organizations. AHRDAs govern the provision of training programs and services to Aboriginal Canadians.

The Federal Response

Provinces and territories want the federal government to recognize the importance of effective LMDAs in building skills for Canadians. Provincial and territorial Ministers have had several discussions with HRDC Minister Jane Stewart to raise the issues outlined in this paper. The federal response has been to request evidence that LMDA funds are being well spent, and that more funds are needed.[14] Provinces and territories feel that these questions have been answered[15] and that the *EI Monitoring and Assessment Reports* indicate that EBSMs are effective and result in cost-savings for the federal government.

The federal government has not publicly raised or examined LMDA-related training and skill development issues in recent months. Instead, Human Resources Development Minister Jane Stewart has made repeated references to the upcoming release of a federal skills paper. The skills agenda will presumably outline the federal government's strategy for ensuring that the training needs of all Canadians are being met. Provinces and territories have clear expectations that it will respond to the key issues outlined in this paper.

Looking to the Future

Provinces and territories share a common vision, a vision in which provinces and territories have the tools to meet the labour market development needs of all Canadians. Experience over the last five years has shown that LMDAs effectively provide skill development opportunities to EI clients. Provinces and territories want to work with the federal government to expand and build on this success through:

- An approximate $700 million increase in EI Part II funding allocations, the maximum allowed under the *EI Act*;[16]
- Funding from the Consolidated Revenue Fund, to help Canadians who are not EI-eligible;
- Broader client eligibility;
- Lower EI premiums to increase employment; and
- A return to the negotiating table in jurisdictions seeking an initial or different Labour Market Development Agreement.

Properly funded, flexible LMDAs are the centrepiece of an effective labour market system and a necessary component of any credible national skills agenda. They are a

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[14] In certain jurisdictions, expenditures have consistently exceeded allocated budgets. For jurisdictions that do *not* have devolved agreements, the opposite is often the case - the allocated budgets have consistently exceeded expenditures. The resulting excess funds are 'slipped' back to the federal government. Provinces and territories note that this 'slippage' of funds primarily occurs in jurisdictions where the federal government directly delivers EBSMs.

[15] Provinces and territories provide information to HRDC through annual plans, short-term, medium-term, and longer-term indicators, Formative Evaluations, Three Year Reviews, and Summative Evaluations.

[16] The large surplus in the EI Account could accommodate both an increase in EI Part II funding and a decrease in EI premium rates.

proven, established vehicle for helping Canadians acquire skills, while respecting constitutional responsibilities. Through LMDAs, provinces and territories have the capacity to meet the reskilling and upskilling needs of all Canadians.

Appendix A: The LMDAs Held by Each Province and Territory

All jurisdictions, with the exception of Ontario, have signed Labour Market Development Agreements with Canada. There are three types of LMDAs:

- "Strategic Partnership LMDAs", where the federal government delivers the training and employment programs and services, known as Employment Benefits and Support Measures (EBSMs).
- "Co-Managed LMDAs", where the federal government delivers EBSMs, in consultation with the province or territory.
- "Fully-Devolved LMDAs", where provinces and territories have full responsibility for delivery of EBSMs.

Type / Jurisdiction	Signed	2001/02 Program Resources in $ Millions**
Strategic Partnership		
Nova Scotia*	04/97	$80
Co-Management		
British Columbia*	04/97	$289
Newfoundland	03/97	$128
Yukon	01/98	$4
Partnership / PEI	04/97	$25
Fully-Devolved		
Alberta	12/96	$113
Saskatchewan	02/98	$39
Manitoba	04/97	$50
Quebec	AIP 04/97 LMIA 11/97	$596
New Brunswick	12/96	$90
NWT	02/98	$3
Nunavut	05/00	$2
No Agreement Yet Negotiated		
Ontario*	No	$531

*Denotes provinces interested in negotiating an initial or different LMDA.
** These figures have been rounded.

Appendix B: The Link between Education and Employment, 2001 (%)[17]

Age	Labour Force Participation Rate	Unemployment Rate	Unemployment Rate by Educational Attainment			
			0-8 Years	High School Graduate	Post-secondary Certificate /Diploma	Post-secondary Degree
All Ages	66.0	7.2	13.4	6.9	5.8	4.6
15-24	64.7	12.8	27.4	11.6	7.9	7.4
25-54	85.1	6.2	14.1	6.0	5.6	4.6
55+	26.0	5.5	8.4	4.7	5.2	4.0

[17] Labour Force Survey, Statistics Canada.

Appendix C: Unemployment Insurance Statistics from 1995/96 and Employment Insurance Statistics from the 1997-2000 *Employment Insurance Monitoring and Assessment Reports*

Employment Insurance (EI) Part I

	1995/96[1]	1996/97[1]	1997/98	1998/99	1999/2000
New claimants (#)[3]	2.1 M	1.8 M	1.8 M	1.8 M	1.7 M
Total income benefits paid out [3]	$13 B	$12 B	$10 B	$10 B	$9 B
Average weekly benefit	$260	$257	$278	$283	$284

Employment Insurance (EI) Part II

	1995/96	1996/97	1997/98	1998/99	1999/2000
Clients participating in EBSMs (#) [2,3]	231,900	304,500	417,900	501,600	481,300
Total Canadian interventions[3]	442,100	N/A	482,100	640,800	645,800
Long-term interventions (# and % share of interventions)[3]	200,600 (45.4%)	N/A	217,800 (45.2%)	266,100 (41.5%)	212, 100 (32.8%)
Short-term interventions (# and % share of interventions)[3]	238,900 (54.0%)	N/A	257,700 (53.4%)	368,300 (57.5%)	423,800 (65.6%)
Avge. Cost/intervention	$8497	$3896	$7186	$6320	$7459
Returns to work across Canada[3]	N/A	97,700	183,000	267, 100	293,300
Unpaid benefits across Canada[3]	N/A	$465 M	$674 M	$918 M	$939 M
Overall Expenditures on EBSMs across Canada[3]	$1.8 B	$1.2 B	$2.0 B	$2.5 B	$2.4 B

[1] The statistics are somewhat incomplete for 1995/96 and 1996/97 as the programming was in the process of being implemented.

[2] Under the 1995/96 heading, statistics are provided for similar programming under Unemployment Insurance entitled Unemployment Insurance Developmental Uses (UIDU).

[3] These figures have been rounded